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Japan's Economy Up Sharply In 1987

More than a year ago Japan pledged to stimulate its domestic economy as part of an accord worked out at the Louvre to stabilize exchange rates. While the effect of the agreement on the currency markets is debatable, it is clear that Tokyo effectively upheld its end of the pact.

The real growth rate for 1987 was 4.2 percent, evenly distributed throughout the year except for the second quarter when the gross national product was flat. While the rate does not approach the high growth levels of the 1960s and early 1970s, it was still a remarkable feat and a major improvement over the previous years's 2.4 percent. The government's decision to loosen monetary policy and take other measures to stimulate housing increased the pace

Japan's Real Gross National Product at Constant (1980) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	1986	1987	January-March 1987	April-June 1987	July-September 1987	October-December 1987
Gross National Product	Y298,841.4 (2.4%)	Y311,539.9 (4.2%)	Y306,780.1 (6.1%)	Y306,805.8 (0.0%)	Y313,030.0 (8.4%)	Y318,374.7 (7.0%)
Personal Consumption Spending	167,508.3 (3.2%)	173,960.0 (3.9%)	171,935.2 (8.2%)	173,089.9 (2.7%)	174,877.5 (4.2%)	175,663.0 (1.8%)
Private Residential Construction	15,163.0 (8.4%)	18,282.5 (20.6%)	16,459.1 (4.9%)	16,950.2 (12.5%)	18,679.1 (47.5%)	21,019.1 (60.3%)
Private Fixed Nonresidential Investment	55,607.2 (6.1%)	60,198.4 (8.3%)	57,949.6 (10.3%)	58,973.3 (7.3%)	60,554.5 (11.1%)	63,033.8 (17.4%)
Change in Business Inventories	852.5 (-64.0%)	718.6 (-15.7%)	143.9 (*)	906.7 (*)	716.3 (*)	1,095.3 (*)
Government Current Expenditures	28,771.6 (6.5%)	28,615.6 (-0.5%)	28,384.9 (-38.0%)	28,726.6 (4.9%)	28,648.5 (-1.1%)	28,709.9 (0.9%)
Government Fixed Investment	21,797.8 (4.0%)	23,619.8 (8.4%)	22,417.9 (2.8%)	22,797.4 (6.9%)	23,496.0 (12.8%)	25,053.8 (29.3%)
Change in Government Inventories	797.9 (*)	-13.1 (*)	226.2 (*)	-102.2 (*)	-9.2 (*)	-164.6 (*)
Net External Sector	8,343.1 (-33.0%)	6,158.0 (-26.2%)	9,263.3 (113.1%)	5,463.9 (-87.9%)	6,067.3 (52.0%)	3,964.4 (-81.8%)
Exports of Goods and Services and Factor Income Received	52,397.0 (-5.2%)	54,221.2 (3.5%)	53,451.0 (10.4%)	52,466.1 (-7.2%)	55,981.6 (29.6%)	55,045.8 (-6.6%)
Imports of Goods and Services and Factor Income Paid	44,053.8 (2.8%)	48,063.1 (9.1%)	44,187.7 (-2.6%)	47,002.2 (28.0%)	49,914.3 (27.2%)	51,081.4 (9.7%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

of residential construction by 20.6 percent for the year, which by itself added 1 percent to the overall growth rate. Government capital spending added another 0.6 percent.

Plant and equipment investment was the strongest component of private domestic demand. The largest item of all, private consumer spending, managed a 3.9 percent gain for the year, adding 2.1 percent to the overall rate. In the last quarter of 1987, consumption increases slowed while the rest of the economy accelerated; on an annual basis, overall growth was 7 percent, but consumer spending increased at only a 0.4 percent clip.

Framers of the Louvre Accord hoped that Japan's growth would pull in more imports, reducing downward pressure on the dollar and shrinking the trade surplus. Things went just as hoped; coupled with a stronger yen, sharply higher imports more than offset sluggish export growth, and the foreign sector's contribution to economic growth was negative for the second straight year. In the October-December quarter, net exports on a national income basis shrank 34.7 percent from the previous quarter, leaving them at the lowest annual real level since 1982.

The GNP figures also indicate continued good news on inflation. The nominal growth rate was less than the real (inflation-adjusted) growth rate of GNP, because one broad measure of inflation, the GNP deflator, was negative for the first time since 1958, a consequence of the appreciation of the yen and of low oil prices.

If there was any bad news in the report it was that government forecasters had been too pessimistic. As recently as December they were forecasting 3.7 percent real growth for fiscal year 1987, ending this month. If Japan's economy grows 6 percent annually in the first quarter of 1988, a slower rate than the past two quarters, the overall rate for FY 1987 would be 4.5 percent.

The robust economy and the soaring yen contributed to Japan's finishing high in the worldwide per capita GNP sweepstakes, just behind Switzerland and easily surpassing the United States. The figure's usefulness is debatable; measures reflecting living standards and consumer prices still put the United States comfortably ahead of Japan, but the accomplishment is another reminder of the continued strength of the Japanese economy.

Douglas Ostrom

Currency Markets Still Sleeping

In contrast to the turmoil of the holiday season, the currency markets have been remarkably quiet since mid-January. In February the dollar even managed to eke out a small gain against the yen, rising to Y129.15=$1.00 from Y127.56 in January, the first month-to-month gain since October. On March 18 the dollar closed at Y128.35 on the Tokyo market, having varied barely two yen in the previous two weeks.

Traders have increasingly shrugged off recent U.S. and Japanese trade reports, apparently because they interpreted the numbers as moving in the right direction once seasonal factors were considered. Had the U.S. trade deficit or

Japan. This would eliminate the present requirement for case-by-case approval. Opponents of the pact, who have raised concerns about nuclear proliferation and possible safety hazards, may now attempt to attach conditions to the nuclear agreement. Proponents stress that the pact will insure continued U.S. input on the Japanese nuclear program, as well as drum up millions of dollars worth of uranium sales for this country.

Corrections

In JEI Report No. 11A, March 18, 1988, the rate of operation for 1987 listed in Table 2 should read 71.8 (not 371.8).

In JEI Report No. 11B, March 18, 1988, the base period for the data on Japan's Urban Residential Land Prices was March 1980 (not March 1985).

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.